

ARGUS WEEKLY OPTIONS WATCH

Week of August 21, 2017

SHORT-TERM MARKET WRAP

The stock market has finally witnessed some price volatility after months of historically quiet price action. This has pushed the VIX (CBOE Volatility Index) up almost 100% from its intraday low of 8.84 on July 26 to its intraday high of 17.28 on August 11. This is, of course, good for option premiums.

There is a real bifurcation when it comes to the major indices, with the brunt of the weakness seen in the small-cap Russell 2000 (RUT) and the S&P MidCap 400 (MDY). The RUT is currently more than 6% below its July all-time-high (ATH) and has dropped below its 200-day average for the first time since June 2016. MDY has fallen 5.1% from its July ATH and is currently testing its 200-day average. MDY has been above its 200-day since March 2016. The larger indices have suffered far less technical damage with the S&P 500 off less than 2% from its early August ATH and still far above its 200-day average.

CBOE EQUITY-ONLY PUT/CALL RATIO: Contrary Indicator

High put/call (p/c) levels are a sign of fear (bullish from a contrarian view), while low p/c levels are a sign of complacency (bearish from a contrarian view). The trend of p/c's is more important than absolute levels. When the intermediate- to longer-term trend is lower, this is bullish for stocks. When the trend is higher, it is bearish for stocks.

Last Signal: There was a short-term buy signal on August 11 after the five-day p/c average exceeded 0.80. These signals can be early and do not preclude another lower low for the S&P 500. It's very possible that this signal will reverse the sell signal from the OEX p/c ratio below. This signal favors call buys and put writes.

Long-term P/C: The 21-day average is just starting to break the downtrend that has been in place since Feb/March 2016. This is a very early warning that the stock market is peaking. The last three sell signals occurred two to six months prior to the market rolling over and does not preclude new market highs from here. This signal is minor so far, and certainly could be reversed.

OEX PUT/CALL RATIO: Smart Money Indicator

This is a smart money indicator, so it's generally best to follow what these investors are doing.

Last signal: There was a short-term sell signal on August 1 after the 10-day average exceeded 1.70. This signal favors put buys and call writes. The last six signals have all led to generally modest pullbacks of 2% to 6% within the next month or two. So far, from intraday high to intraday low, the S&P 500 has declined 2.8% — so it's possible there is a little more downside for stocks.

OPTION TRADE OF THE WEEK

Name Freeport-McMoRan
 Ticker FCX
 Share Price \$14.76

Recommended Strike

Exp. Date 10/20/17
 Strike Price \$15
 Price \$0.85

FCX is breaking out from a bullish flag formation, a continuation pattern. This follows a massive breakout from an inverse head-and-shoulders (H&S) formation in late July on massive trading volume. That breakout paused (flagged) after retracing 61.8% (typical resistance) of the decline from January to June. Bullishly, the flag paused right at the breakout region of \$15.80. A breakout over the recent high of \$15.27 would add confirmation to the bullish setup. Based on the size of the inverse H&S as well as the size of the bull flag, we could see a measured move up toward/to the January high near \$17.

Argus Covered Call Strategies

The below strategies, in addition to being selected based on proprietary options screening criteria using Argus ratings and target prices, are screened on two additional characteristics:

* A beta lower than 1.2, indicating moderate- to low-volatility and thus lower likelihood of the underlying security being called; and

* An Argus Financial Strength Score of at least Medium-High, indicating a healthy balance sheet and the tendency of having a stock buyback program that provides support for the shares to minimize downside during the strike period.

COVERED CALL STRATEGIES - MODERATE BETA, STRONG FINANCIAL STRENGTH

Name	Ticker	Current Share Price	Recommended Strike		Annualized		Financial Strength Score	
			Exp. Date	Strike Price	Price	Return		Beta
PPG Industries	PPG	\$102.08	11/17/17	\$100	\$5.40	14.2%	1.64	Medium-High
Carnival Corp.	CCL	\$67.46	1/19/18	\$65	\$4.80	9.0%	0.88	Medium-High
Walt Disney	DIS	\$100.70	10/20/17	\$100	\$3.20	15.6%	1.32	Medium-High
Progressive Corp.	PGR	\$48.63	11/17/17	\$48	\$1.90	11.3%	0.84	Medium-High
Cerner Corp.	CERN	\$64.25	12/15/17	\$62.50	\$4.50	14.5%	0.92	High
Southwest Airlines	LUV	\$53.17	12/15/17	\$52.50	\$3.50	17.9%	1.19	Medium-High
Fastenal Co.	FAST	\$40.68	11/17/17	\$40	\$2.25	16.9%	0.73	Medium-High
CA Inc.	CA	\$32.37	11/17/17	\$32	\$1.35	13.1%	0.63	Medium-High
PayPal Holdings	PYPL	\$59.44	10/20/17	\$57.50	\$3.65	18.7%	1.10	Medium-High
Xilinx Inc.	XLNX	\$61.02	12/15/17	\$60	\$4.15	17.3%	0.94	Medium-High

Pre-Earnings Call Buying Strategies

The strategies below are screened based on Argus fundamental research analysts having an above-consensus view on near-term earnings announcements. The call purchase is intended to enable the buyer to take advantage of expected positive price action following the release of the company's earnings.

PRE-EARNINGS CALL BUYING STRATEGIES - ARGUS AHEAD OF CONSENSUS

Name	Ticker	Current Share Price	Recommended Strike		EPS Report Date	
			Exp. Date	Strike Price		Price
Ciena Corp.	CIEN	\$23.37	9/15/17	\$23	\$1.29	8/31/17
Fedex Corp.	FDX	\$206.00	9/22/17	\$210	\$3.75	9/19/17
Costco Corp.	COST	\$157.08	10/20/17	\$158	\$4.70	10/5/17
FastenalCo.	FAST	\$40.68	10/20/17	\$41	\$1.10	10/11/17

ETF Options Plays

In this table, we provide recommended call options strategies on the S&P 500, as well as other prominent and liquid ETFs.

ETF COVERED CALLS

Name	Ticker	Current Share Price	Recommended Strike		Annualized		Risk level
			Exp. Date	Strike Price	Price	Return	
S&P 500 Index	SPY	\$242.81	11/17/17	\$242	\$6.30	9.8%	Low
Emerging Market MSCI	EEM	\$43.67	11/17/17	\$43.50	\$1.57	13.8%	Moderate
Spain Index MSCI	EWP	\$33.44	1/19/18	\$33	\$1.50	8.0%	High
DJ U.S. Real Estate	IYR	\$79.18	12/15/17	\$79	\$2.13	8.0%	Moderate
PowerShares QQQ	QQQ	\$141.23	10/20/17	\$141	\$4.00	16.7%	Moderate
Industrial Sector SPDR	XLI	\$67.15	12/15/17	\$67	\$2.03	9.1%	Moderate

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